

Message Text

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16

ORIGIN NEA-12

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

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EB/IFD/ODF/REBENEDICK (DRAFT)

----- 052699

R 120104Z APR 74

FM SECSTATE WASHDC

TO AMEMBASSY ISLAMABAD

INFO AMEMBASSY PARIS

AMCONSUL KARACHI

AMCONSUL LAHORE

AMCONSUL PESHAWAR

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E.O.11652:N/A

TAGS: EGEN, EFIN, PK

SUBJECT: PAKISTAN DEBT: VISIT OF SEC GEN KAZI

REF: ISLAMABAD 2949

PARIS FOR MACDONALD

1. IN SEPARATE MEETINGS WITH ASSISTANT SECRETARY ARMSTRONG
AND DEPUTY ASSISTANT SECRETARY SOBER, KAZI OUTLINED
PAKISTAN CASE FOR DEBT RESCHEDULING. SOBER WILL HOST
LUNCHEON FOR KAZI ON APRIL 12, AND KAZI WILL ALSO MEET
OFFICIALS OF TREASURY AND USDA.

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2. APRIL 11 MEETINGS PREDICTABLY STRESSED PAK CONCERNS REGARDING DEBT RESCHEDULING BY PARIS CONSORTIUM, THOUGH OTHER ECONOMIC ISSUES AROSE IN CONVERSATIONS. ON DEBT, KAZI MADE STRONG PLEA FOR GOP PROPOSAL CONTAINED MARCH 26 AIDE MEMOIRE (REFTEL), PARTICULARLY NOTING DIFFICULTY IN EVEN MAKING DOLS 125 MILLION ANNUAL REPAYMENTS THROUGH FY 1980 AS PROPOSED IN AIDE MEMOIRE. HE ROUNDLY ATTACKED IBRD REPORT ON RESCHEDULING, SAYING HE REGRETTED IT HAD BEEN RELEASED. HE CRITICIZED "RULES OF THUMB" SUCH AS DEBT-SERVICE RATIO WHICH FAIL TO TAKE INTO ACCOUNT GENERAL ESCALATIONS IN WORLD PRICES AND IMPORT NEEDS. HE ARGUED FOR DRASTIC RESCHEDULINGS OVER NEXT SEVERAL YEARS, SAYING

INFRASTRUCTURAL CHANGES (SUCH AS FOUR ADDITIONAL FERTILIZER PLANTS) NECESSARY TO COPE WITH HIGH DEBT SERVICE WILL NOT BE OPERATIONAL BEFORE 1977-78. KAZI PREDICTED IN FY 1974 A DOLS 150 MILLION BOP GAP. BUT REAL GAP WOULD BE OVER DOLS 300 MILLION TO COVER EXISTING COMMITMENTS. HE NOTED THAT GOP IS PAYING DEBT SERVICE OF ABOUT DOLS 197 MILLION IN FY 1974 BUT THIS WAS AT DIRECT COST OF RESERVES AND WAS IMPOSSIBLE TO CONTINUE.

3. US OFFICIALS RESTATED USG COMMITMENT TO GENEROUS RESCHEDULING TO TAKE ACCOUNT OF GOP-DISPUTED DEBT FOR COMMODITIES SENT TO THEN-EAST PAKISTAN, WITHOUT INDICATING ANY SPECIFIC AMOUNT OF DEBT TO BE RESCHEDULED. THEY ALSO POINTED OUT USG POSITION AGAINST UTILIZING DEBT RESCHEDULING AS DEVICE TO OFFSET IMPACT OF OIL-PRICE INCREASES, NOTING OPPOSITION OF U.S. CONGRESS TO ANY APPEARANCE OF FOREIGN ASSISTANCE "FLOWING THROUGH" RECIPIENT COUNTRIES INTO OPEC COFFERS. THEY NOTED THAT MANY LDCS COULD PLEAD SPECIAL CIRCUMSTANCES AS JUSTIFICATION FOR RESCHEDULING, AND EMPHASIZED THAT IN THIS AREA QUESTIONS OF PRECEDENT WERE VERY IMPORTANT. NEVERTHELESS, OUR IMPRESSION WAS THAT OTHER CONSORTIUM MEMBERS JOINED THE US IN RECOGNIZING PAKISTAN'S CASE IN EQUITY, AND WERE CONFIDENT THAT A MORE GENEROUS RESCHEDULING OFFER WOULD BE FORTHCOMING THAN THAT PROPOSED IN THE BANK'S ORIGINAL REPORT.

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4. KAZI RAISED ARGUMENT THAT IMPORT JUMP WAS ALSO DUE TO PRICE INCREASES FOR WHEAT AND EDIBLE OIL WHICH PAKS NOW HAD TO ACQUIRE COMMERCIALLY AT GREAT COST. NONETHELESS, HE SEEMED TO UNDERSTAND USG POLICY LIMITATIONS IN THIS REGARD.

5. KAZI FREQUENTLY REPEATED AIDE MEMOIRE'S LEVEL OF DOLS 1.2 BILLION IN DISPUTED DEBT (AND RESULTING "REASONABLE-

NESS" OF PAK PROPOSAL FOR "ONLY"DOLS 1.1 BILLION IN RE-
SCHEDULINGS). US SIDE OBSERVED IT WAS A LITTLE PRE-
MATURE TO DISCUSS SPECIFIC AMOUNT OF CONSORTIUM PROPOSALS,
PARTICULARLY SINCE MEMBER COUNTRIES MUST CARRY OUT CON-
SULTATIVE PROCEDURES IN ADVANCE OF MAY PARIS MEETING.
KISSINGER

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